Scenario 1
Citicorp decides to create its own global acceptance mark and merchant network. Citibank would initially add this mark to existing Visa & MC in portfolios, with a long-term goal of dropping V/MC when adequate global acceptance attained.

Execution steps

- put a new mark on newly issued and re-issued Visa & MC cards;
- re-enter merchant acquiring business through acquisition and/or strategic partnerships;
- aggressively sign merchants, offering incentives and lower merchant discount;
- leverage Diners Club acceptance and processing networks, where possible

Risks/Constraints

- costs to build global merchant acceptance network and supporting infrastructure are large - Discover spent $1-1.5Billion to build only U.S. network,
- Citibank would suffer lost interchange revenue as merchants take advantage of incentive rates on new mark;
- Citibank is unlikely to duplicate Visa's global acceptance network in a foreseeable future.

Impact on Visa and remaining Members

- Current interchange structure undermined by incentive pricing on new mark;
- Lost Visa volume & corresponding revenues as transactions routed through new mark

Potential impact on 2.10e and Duality

- new acceptance mark, if unchallenged by Visa, would likely weaken Visa position on 2.10e.

Probability of scenario: LOW

Scenario Ia
Citicorp decides to create a limited purpose acceptance mark and supporting infrastructure. Citibank would promote this mark to high volume and strategically important merchants with a goal of creating unique products and service for these merchants. The new mark would be added to all Visa & MC in its portfolio.

Objectives/Rationale

- differentiate;
- improve returns (after acquisition, 10bp improvement in ROA translates for CCI into $1.2 - $1.5Billion in incremental market valuation), by offering an enhanced and unique service levels negotiated independently of Visa with a selected subset of merchants. and hence developing a product which is universally accepted because of a lower interchange and enables CCI to charge customers adequate fees;
- evolutionary gain acceptance and educate consumer and merchants;
- exercise more leverage over associations;
- use it as a test/pilot of the feasibility of possible separation from associations ;
- depending on the results, may ultimately lead to creation of a closed-loop system with improved returns and leverage consumer purchase information as a new source of value, while radically reducing the power of associations.

Execution steps

- put a new mark on newly issued and re-issued Visa & MC cards;
- re-enter merchant acquiring business through acquisition and/or strategic partnerships;
- aggressively sign high potential merchants, focusing on areas where new value can be created;
- leverage Diners Club acceptance and processing networks;

Scenario 1a (cont.)

Citicorp decides to create a limited purpose acceptance mark and supporting infrastructure. Citibank would promote this mark to high volume and strategically important merchants with a goal of creating unique products and service for these merchants. The new mark would be added to all Visa & MC in its portfolio.

Risks/Constraints

- costs to build global merchant acceptance network and supporting infrastructure are large - Discover spent $1-1.5Billion to build only U.S. network;
- Citibank would suffer lost interchange revenue as merchants take advantage of incentive rates on new mark;

Impact on Visa and remaining Members

- Current interchange structure undermined by incentive pricing on new mark;
- Lost Visa volume & corresponding revenues as transactions routed through new mark;
- Weakens Visa's ability to develop new value added POS services.

Potential impact on 2.10e and Duality

- new acceptance mark, if unchallenged by Visa, would likely weaken Visa position on 2.10e.

Scenario probability: MEDIUM

Scenario 2

Citicorp partners with a small group of issuers and acquirers to launch a new global acceptance mark and merchant network. The issuers would initially add this mark to their existing Visa and MC portfolios, with a long-term goal of dropping V/MC when adequate global acceptance attained.

Execution steps

- establish an alliance management office to coordinate efforts;
- put a new mark on newly issued and re-issued Visa & MC cards;
- aggressively sign merchants, offering incentives and lower merchant discount;
- leverage Diners Club acceptance and processing networks, where possible.

Impact on Visa and remaining Members

- Current interchange structure undermined by incentive pricing on new mark;
- Lost Visa volume & corresponding revenues, as transactions routed through new mark;
- As Visa volume drops, cost per remaining Member is likely to go up (unless the scope of activity is reduced), exerting additional pressure on Issuers returns, and that will increase Members vulnerability to offers from American Express.

Potential impact on 2.10e and Duality

- if new acceptance mark is launched by Visa Members who control majority of votes, Visa may be forced either to accept Members issuing a competing brand (with all implication for 2.10e), or resort to Visa International licensing agreement and embark on a lengthy litigation;
- new acceptance mark, if unchallenged by Visa, would likely weaken Visa position on 2.10e.

Scenario probability: LOW to MEDIUM

Scenario 3
Citicorp forms strategic partnership with American Express to leverage existing AMEX acceptance network

Objectives/Rationale

- benefit from a higher merchant discount enjoyed by AMEX;
- avoid the need to build a new merchant acceptance and supporting infrastructure;
- take advantage of a closed-loop system with improved returns and leverage consumer purchase information as a new source of value, while radically reducing the power of associations.

Execution steps

- develop a new generic acceptance mark to be put on both portfolios;
- reissue all Citibank Visa & MC cards and AmEx cards with new "generic" acceptance mark;
- aggressively work to expand merchant acceptance;
- jointly promote new acceptance mark to merchants and cardholders;
- collapse Diners Club acceptance and processing into partnership when possible.

Risks/Constraints

- Citibank may lose many cardholders due to confusion created by conversion and more limited merchant acceptance;
- Citibank and AmEx are direct global financial services competitors.

Impact on Visa and remaining Members

- Visa would immediately lose 14% of volume and $ in fees and associated revenues;
- This would dramatically strengthen AmEx in payment business.

Scenario 3 cont.
Citicorp forms strategic partnership with American Express to leverage existing AMEX acceptance network

Potential impact on 2.10e and Duality

- most likely amounts to violation of 2.10e and leads to CCI exiting Visa.

Scenario probability: LOW

Scenario 4

In exchange for conversion of Visa portfolios to MasterCard, MC agrees to provide preferential treatment to a selected group of major Issuers. Preferential treatment amounts to:

- *issuance of unique products by selected few (higher interchange, special services, POS differentiation, etc.);*
- *special prices for services provided by MC;*
- *refocus from brand advertising to opening new markets, loss prevention programs, low-cost operation, etc.;*
- *create new businesses (e.g. chip-related, information related) for selected few;*
- *putting the MC logo on the back of cards.*

Execution steps

- MC gains necessary approvals to establish new membership class;
- MC alters their business model to better support large issuers;
- Select issuers begin converting portfolios from Visa to MC;
- MC and select issuers develop and introduce new products and services;
- MC and select issuers create new businesses.

Risks/Constraints

- Potential difficulties in changing modus operandi of the Association;
- MC may find risk of alienating small and medium members too great to proceed.

Impact on Visa and remaining Members

- Visa would immediately lose % of volume and $ in fees and revenues associated with "selected few", but could gain volume from disenchanted remaining Members of MC.

Potential impact on 2.10e and Duality

- may lead to the end of duality

Scenario probability : MEDIUM

Visa response/short-term action plan

preemptive - to prevent scenarios from materializing

- share details of project CONCORD with selected large Members, solicit their feedback;
- articulate, and when possible dimension, the degree of difficulties in replacing/replicating the acceptance network and supporting infrastructure;
- articulate the down-side potential of Citicorp's ideas for other Members;
- initiate/continue the dialogue with those large Members who are aware of Citicorp expressed dissatisfaction with the status quo, and assess their position and potential appeal of specific Citicorp's ideas to specific large Members;
- decide which objectives of CCI can be met to preempt any of the identified scenarios; address the question of how far are we willing/would we be allowed to go, and under what conditions, e.g.
  - if Citicorp would convert all its MC to Visa, would we be willing to lessen brand advertising and focus more on opening new markets, improving global acceptance, processing efficiency and effectiveness, building bankruptcy early warning system, etc.?
- decide whether the potential outcome of Scenario 4 is acceptable from a market share and economics point of view, and consider offering similar arrangement recognizing the ongoing industry consolidation, and the risk of ending up with small and medium-size Members who will be ultimately acquired be a "selected few" Members of MC.
- consider banning putting new acceptance mark on Visa card (risk - MC will allow them to do that)

long-term - if scenario plays out
TBD